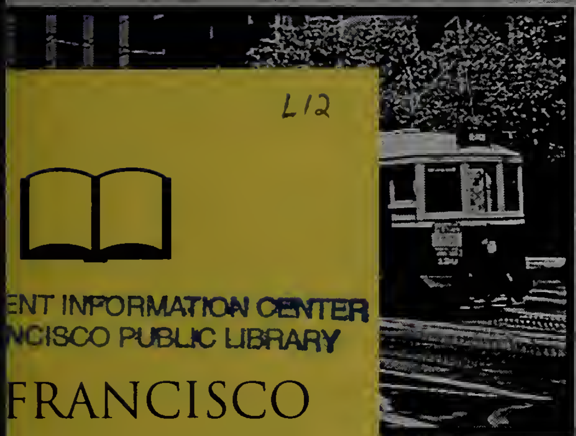
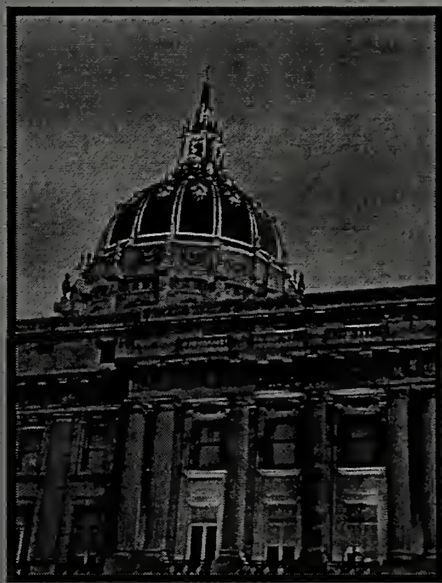
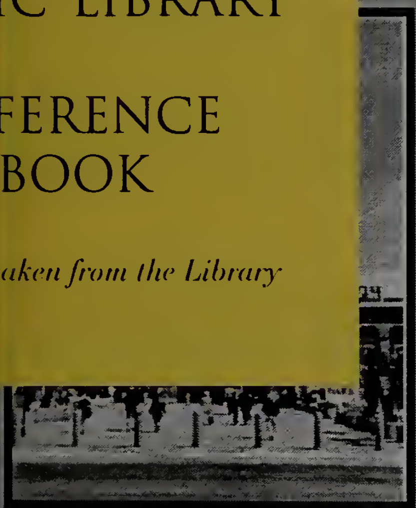
2000 Strategic Plan Update



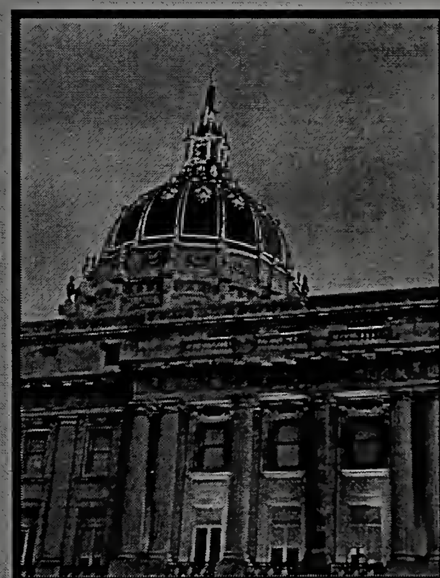




San Francisco County Transportation Authority

July 2000

2000 Strategic Plan Update



San Francisco County Transportation Authority

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TABLE OF CONTENTS

TABLE OF FIGURES

2000 STRATEGIC PLAN UPDATE

I. EXECUTIVE SUMMARY

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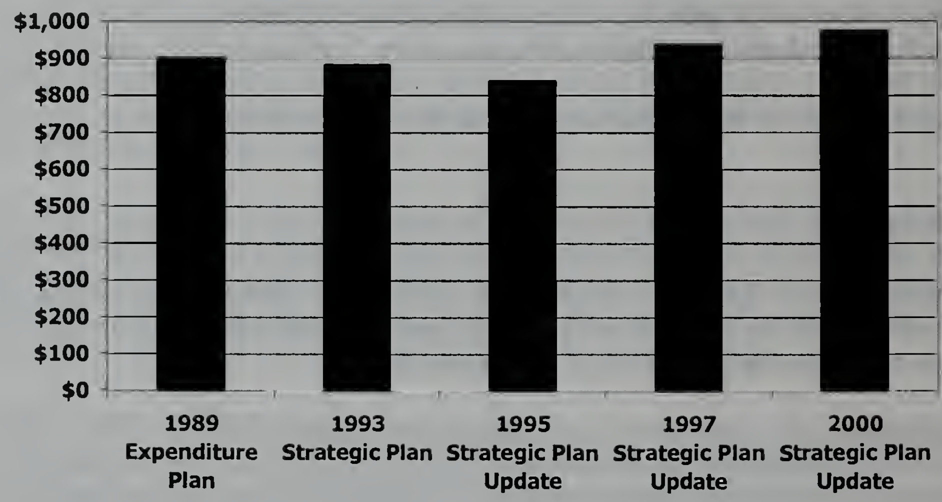
In the 10-year window for this Update, projecting inflation helps the Authority estimate its actual dollar outlay for any particular year. If the Federal Reserve Bank maintains pressure to control inflation by raising interest rates, it is likely that inflation will remain low for the next several years. Therefore, an inflation factor 3.0% is used for the remaining 10 years of the update.

Step 1: Update Sales Tax Revenue Forecast

The first step in the Strategic Plan Update process was to develop a financial strategy. In this step, the Authority reviewed the historical sales tax receipts in San Francisco for the last 10 years and identified and refined projections for expected revenue receipts in the future. These projections included increases due to both growth and inflation.

As summarized in Figure 1, the Authority anticipates collecting $974.5 million (1990$) in sales tax revenues over the twenty-year Proposition B program. In 1997, the anticipated 20-year collected revenues were $937.8 million (1990$). This trend reflects projected future growth in San Francisco's economy.

Figure 1
TWENTY-YEAR REVENUE FORECAST COMPARISON ($1990 M)



Step 2: Review State and Federal Funding Projections

The Proposition B program leverages state and federal funds to maximize outside funds available to San Francisco. Therefore, in addition to the new Proposition B revenue forecasts, state and federal funding projections were also revised to complete the revenue forecast picture.

Anticipated federal funds made available through TEA-21 (the six-year federal transportation bill known as the Transportation Equity Act for the 21st Century) are included in the revenue projections for San Francisco transportation projects. These include federal formula funds as well as discretionary FTA Section 5309 Congressional Earmarks, Surface Transportation Program (STP), and Congestion Mitigation & Air Quality (CMAQ) funding plus other TEA-21 enhancement programs.

State funding is provided through the State Transportation Improvement Program (STIP). In 1998, the first STIP following the new SB 45 rules and regulations was adopted. At that time, about $50 million was programmed for San Francisco projects. Shortly thereafter, TEA-21 was passed and provided more statewide funding than originally anticipated. As a result, in 1999, the STIP was augmented giving an additional $20 million in "regional improvement" funds to San Francisco. In January 2000, the Transportation Authority recommended a program of projects for the $20 million that were incorporated in the STIP amendment adopted by the California Transportation Commission (CTC) in March 2000.

Combined, the 1998 STIP and the STIP amendment have programmed approximately $70 million in State funds for San Francisco projects. Of this amount, about $35 million is programmed for Proposition B projects. This includes about $25 million for vehicle purchases for the Third Street Light Rail Project, $4 million for the MUNI Operations and Maintenance Facility at Islais Creek, and $5.5 million for MUNI trolley bus purchases.

The next opportunity for new state funds is anticipated to be the 2002 STIP. Although difficult to estimate, it is reasonable to assume that San Francisco Proposition B projects will receive at least the same level of funding ($35 million) as the 1998 STIP. In addition to new STIP funding, Governor Davis' proposed Traffic Congestion Relief Plan released in May 2000, includes $140 million for Phase II of the Third Street LRT Project (the new Central Subway) and $15 million for the Doyle Drive reconstruction project.

Step 3: Update and Refine Project Scopes, Schedules, and Cost/Funding Estimates

The third step in the Strategic Plan Update process was to review the status of expenditure plan projects. In this step, the Authority has worked with each City Department to update scopes of work, schedule, cost, and cash flow data for all active projects (including operations and maintenance funding). Information obtained for each project was examined to ensure that scope, schedule, key assumptions, and estimates are appropriate in relation to the goals of the Proposition B program.

Each project's scope of work, schedule and cost were summarized on a cost/funding matrix using escalated dollars with key assumptions identified. Federal and State revenue forecasts, provided by MTC and Caltrans, were also updated, and used in the cost/funding matrices. In consultation with City Departments, projects that are unlikely to be accomplished in the program's 20-year time frame were identified.

The following is a brief description of key projects and programs within each sponsoring City Department that will be accomplished within the 10-year period of this Strategic Plan Update.

Department of Public Works (DPW)

The Department of Public Works continues to move forward with various capital improvement projects and programs including continuation of the comprehensive street-resurfacing program. Priority 1 resurfacing activities are scheduled for completion by FY 2006/07. Sidewalk repair and replacement of street maintenance equipment will continue at current levels through FY 2002/03. Work will be completed on Phase I and II of the Bernal Heights street system upgrading. Downtown pedestrian projects are programmed through FY 2004/05.

Department of Parking and Traffic (DPT)

The Department of Parking and Traffic will complete Priority 1 Signal Upgrading work by FY 2005/06, through continued Authority programming of approximately $5M each year. New Traffic Signal construction will continue with over $5 million to be allocated through FY 2005/06. In accordance with an agreement between DPT and DPW, the remaining $1.3 million in the Bicycle, Pedestrian, and Disabled Access subcategory is programmed for bicycle improvements.

Planning Department (DCP)

The Planning Department will continue to perform program development and monitoring activities for the Transportation Brokerage and the Transportation Management Association programs through FY 2004/05, when the projected funding cap for these subcategories will be reached. The Planning Department's activities in the Transit Preferential Streets subcategory continue through FY 2004/05.

Municipal Transportation Agency (MTA)/MUNI

The three most important projects for the MTA over the next 10 years are replacement of the LRV, trolley coach and motor coach fleets; the facilities rehabilitation program; and construction of the Third Street LRT Project. These projects are summarized below.

Fleet Replacement Program

MUNI's light rail vehicle fleet replacement is nearing completion. This program replaces MUNI's 136-vehicle LRV fleet. The remaining 59 vehicles are currently on order to complete the procurement. MUNI has also exercised its option to procure an additional 15 LRVs required for the Third Street Light Rail Project.

The Authority and MUNI staff have refined the Trolley Bus and Motor Coach replacement projects to better understand and evaluate the program, including preparation of detailed cash flow projections. MUNI's assumptions for federal and state matching funds for this program appear to be realistic. However, TEA-21 annual appropriations need to be closely monitored to validate or adjust assumptions about future federal revenues, with particular focus on when these funds may become available.

Facilities Rehabilitation/Expansion Program

MUNI's facilities rehabilitation program has greater demand than the anticipated available Proposition B revenues. MUNI and Authority staff have agreed to use available revenues for MUNI's highest priority projects, those included in the Facilities Preservation Program. Implementation of replacement facilities other than Islais Creek has been deferred until new funding sources are identified.

Third Street Light Rail Project, Phase I – Initial Operating System & Metro East LRV Facility

Phase I of the Third Street LRT Project consists of a light rail transit extension, 19 stations, the Metro East Maintenance and Operations Facility, urban design elements, acquisition of right-of-way properties and the purchase of 15 additional light rail vehicles. The Project consists of a 5.4-mile extension of the MUNI Metro from 4th Street and King Street to a southern terminus adjacent to the Caltrain Bayshore Station. Phase II of the Light Rail extension will cross the 4th

Street Bridge, Islais Creek and Highway 101. A map showing the location of this project is shown in Figure 2.

Figure 2
Third Street Light Rail Map

Current cost estimates (in escalated dollars) for the Third Street LRT – Phase 1 Project (not including additional Mission Bay service in 2015) are $324.5 million for the rail project, $126.6 million for the rail maintenance facility and $42.9 million for the 15 LRVs. In order to meet the funding demand for the Third Street Light Rail Project funds are derived from elements of several TEP projects, including Transit Corridor Planning and Capital Construction (TA #15), Mission Bay MUNI Metro Extension (TA# 3), Metro East LRV Facility (TA# 8), and the Third Street Median Island (TA# 39). Recommended funding for the Third Street LRT Project is outlined in Figure 3.

Figure 3
Third Street/Metro East Facility Projects (Prop. B Funding in $ Millions)

Number	Project	Third St. Light Rail	Metro East LRV Facility	Vehicles	Total
	Total Cost of Projects	$324.49	$126.62	$42.90	$494.01
TA#2.4	MUNI Metro Extension		$36.02		$36.02
TA#3	Mission Bay Metro Ext.	$4.02	$13.62		$17.64
TA#8	Metro East LRV Facility		$25.87		$25.87
TA#14	Major Corridor Studies	$12.73			$12.73
TA#15	Capital Construction Fund	$259.47		$17.90	$277.37
TA#39	Third Street Median Island	$10.17			$10.17
Total Prop. B Funding Available		$286.39	$75.51	$17.90	$379.80
Anticipated Federal/State Funding		$35.07	$51.11	$25.00	$111.18
Total Funding Available		**$321.46**	**$126.62**	**$42.9**	**$490.98**
Other Funding Sources to be Identified		$3.03	$0	$0	$3.03

Sources: Costs are from MUNI staff - Proposition B data updated by the Authority in June 2000.

Step 4: Determine Program Allocation and Cash Flow Requirements

In addition to analysis of all future projects, the Authority's financial advisor prepared detailed cash flow projections for the following five major projects:

- MUNI Light Rail Vehicle Replacement Program
- MUNI Third Street Light Rail Project
- MUNI Motor Coach Replacement Program
- MUNI Trolley Coach Replacement Program
- DPW Street Resurfacing

Cash flow demands for all other TEP projects and programs in this Strategic Plan update are based on historical patterns of previous drawdowns for similar projects.

Step 5: Assess Financial Alternatives

The final step in the Strategic Plan Update was to compare annual project funding demand to funding availability. Results of this comparison verify that a cash flow shortage projected in the 1997 Strategic Plan Update will occur. Based on the current projections, cash demand in several years exceeds the available revenue, creating the need for financing. It is anticipated that, to fund the program as currently projected, the Authority will need to borrow. Under current market conditions, the Authority has the capacity to issue up to $359 million in bonds for a period of 9 years. The Authority's Financial Advisor has projected the financing cost to the program to be $98 million.

Further financial analysis included a brief analysis of methods to reduce the cost of financing.

If, rather than obtaining financing for the program, the Authority were to continue with a pay-as-you-go strategy, then the Third Street LRT Project, and portions of the MUNI vehicle replacement program and Facilities Program would be delayed. Also, allocations for other programs such as Street Resurfacing and Signal Upgrading would likely need to be delayed.

IV. Recommendations

Program Recommendations

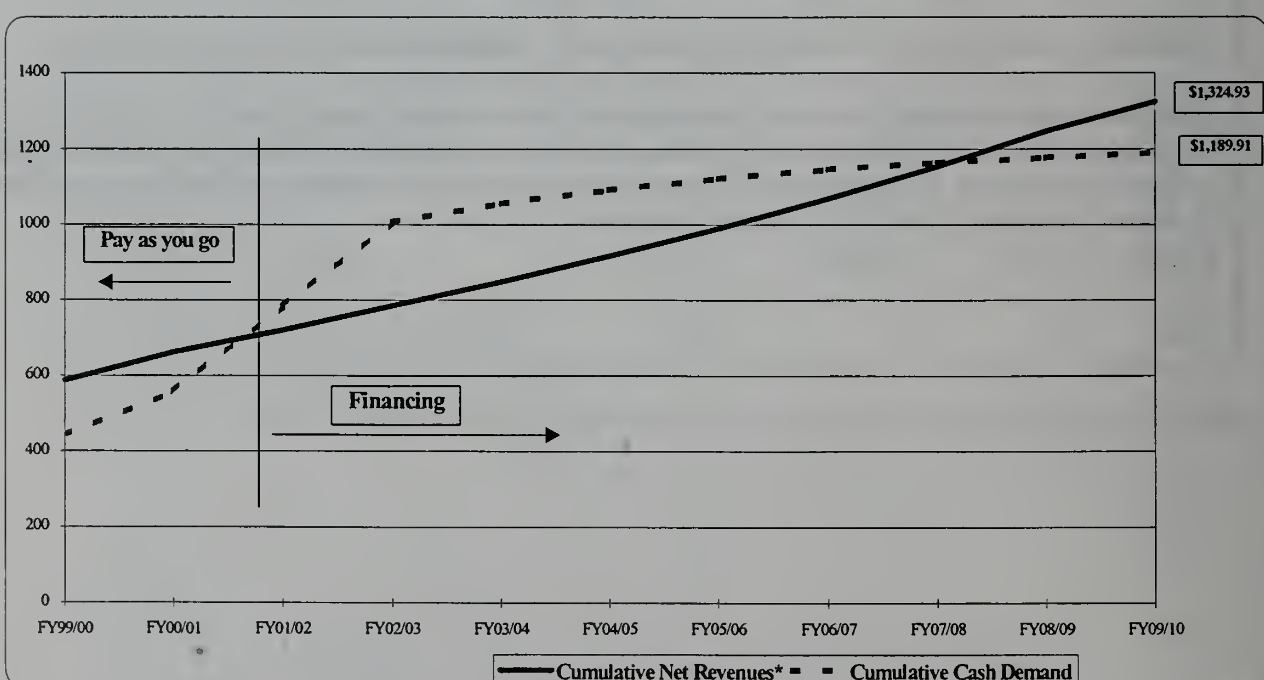
Figure 5 presents Recommended Funding Allocations, detailing the recommended funding commitments from FY 2000/01 through FY 2009/10 in escalated dollars. This figure is found at the end of this document on pages 13-14.

Financing Strategy Recommendations

Need for Financing

Since its inception, the Transportation Authority has been able to use a pay-as-you-go strategy to fund implementation of the Proposition B program. However, in order to complete the proposed projects over the next several years, the Authority will need to obtain financing by bonding against future sales tax revenue. The main reason is that the MUNI Third Street LRT and new vehicle acquisition projects place significant demands on cash flows over a several year period. Figure 4 summarizes the projected cumulative tax revenue versus the expected cumulative cash demand for the Proposition B program.

Figure 4
Cumulative Net Revenue and Cash Demand (Esc $M)



	FY99/00	FY00/01	FY01/02	FY02/03	FY03/04	FY04/05	FY05/06	FY06/07	FY07/08	FY08/09	FY09/10
Cumulative Net Revenues*	587.98	662.78	721.13	786.44	850.08	917.95	990.83	1069.48	1154.77	1247.60	1324.93
Cumulative Cash Demand	441.75	558.42	783.67	1008.32	1057.17	1093.04	1122.77	1146.98	1164.25	1176.69	1189.91
Net Cash Flow	146.23	104.35	(62.54)	(221.88)	(207.09)	(175.08)	(131.94)	(77.50)	(9.48)	70.91	135.03

* Less Financing Costs

As shown in Figure 4, using projected program cash drawdowns provided by the City Departments and sales tax revenue assumptions, the program's cumulative cash demand exceeds the cumulative revenue in the seven year period from FY 2001/02 through FY 2007/08. In order to meet this cash demand, the Authority will need to obtain financing beginning in FY 2001/02.

The Strategic Plan Update recommends that the Transportation Authority carefully consider the timing, amount, and method of financing. These factors are critical to the success of a financing program.

The most critical aspect of financing is determining how much to finance. The more financing required, the higher the cost to the Transportation Authority. By keeping borrowing costs as low as possible, the Authority will have more money to spend on projects. This cost must be balanced against the benefits of implementing projects more quickly, namely: reducing impacts of construction cost inflation, obtaining more efficient construction programs, and - most importantly for the Authority - delivering needed transportation improvements to the city more quickly.

The key question the Authority must answer is how likely are the major projects to draw-down Authority cash at the rate anticipated in this Strategic Plan Update. If the drawdowns are spread more evenly over time, financing costs can be reduced. The Authority plans to work closely with the departments (especially MUNI because it has the largest projects), to refine anticipated cash drawdown schedules and obtain the best possible estimate of required financing needs.

In addition to the amount of financing, there are two important factors to consider in terms of timing. First, when will funds be needed to meet public commitments? Second, when would it be most advantageous to enter the financial market to obtain funding?

Finally, there are several possible structures for financing the Authority's projects, including issuance of fixed-rate, long-term debt; issuance of short-term, variable-rate debt; or a combination of both. The decision as to which structure to use will depend upon market conditions, preferences of the Authority, and the demonstrated ability of project sponsoring departments, especially MUNI, to utilize Authority funding on time.

Regardless of which financing strategy the Authority chooses for years of heavy capital expenditure (FY 2001/02 – FY2006/07), the Authority must constantly evaluate the potential for entering the market to take advantage of any favorable market conditions that appear.

Policy Recommendations

In order to adopt the Authority's 10-year funding program (outlined in Figure 5). The following three policy recommendations should be implemented:

Policy Recommendation #1: Continue strong oversight role on Third Street LRT Project

The Authority should continue a strong oversight role on MUNI's Third Street LRT Project to ensure that the project schedule, budget, and objectives are met. This level of oversight is consistent with that provided by the Authority to successfully oversee preparation of the Preliminary Engineering package.

This Strategic Plan Update calls for approximately $380 million in Proposition B sales tax revenues to be used for the Third Street LRT Project. Construction of the Third Street LRT Project, Phase 1, Initial Operating Segment (IOS), including vehicles and the Metro East maintenance facility, will also require approximately $114 million from a variety of other funding sources for implementation. This amount is currently projected to come from non-sales tax sources, including federal and state funds that could be

used for other San Francisco projects. No additional funding will be available from the Proposition B sales tax program should the Third Street LRT Project incur any additional costs. Therefore, it is critical that MUNI exercise diligent project management to avoid potential cost increases on the project.

To date, the Authority has invested over $49 million worth of Proposition B funds in the Third Street LRT Project. The project is now at a critical transition point where it will be moving from the planning phase to actual design and construction. As described above, in order to meet MUNI's current schedule for the Third Street LRT Project, the Authority will need to borrow money.

Policy Recommendation #2: Reconfirm Policy on Allocation of Financing Costs

With the adoption of the 1997 Strategic Plan Update, the Authority adopted a policy that allows financing costs to be distributed to the entire program rather than to a specific project. Now that the Authority has determined that financing will be necessary to meet Transportation Expenditure Plan demands it should reconfirm this policy. This will ensure that the program's larger projects, including the Third Street LRT project, will not be burdened with the cost of financing.

Policy Recommendation #3: Encourage Project Sponsors to De-Obligate Funds when no Longer Needed

As the Authority moves into the final 10 years of the Proposition B program, it will become more important to closely monitor project costs and expenditures to ensure a balance at the end of the 20-year period. To work toward this objective and meet the changing needs of projects and programs, the Authority should require project sponsors to de-obligate remaining funds from projects whose scope is completed. This policy acknowledges that individual project needs have changed since 1989 and that some projects no longer require the level of Measure B funding originally anticipated. De-obligated funds would then become available for other eligible projects or programs within the original constraints of the TEP.

Figure 5
Revenue Projections – Strategic Plan

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Page 2 of 2 Excel Insert

TABLE OF CONTENTS

TABLE OF FIGURES

DO NOT DELETE THIS PAGE – RETAIN AS LAST PAGE OF DOCUMENT
This page necessary for chapter number setting

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Go to MODIFY, FORMAT, NUMBERING
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This Strategic Plan Update is based upon several key demand and revenue assumptions. Key assumptions on the demand side are estimated based on the Authority's review and concurrence with project-level information provided by City Departments.

Key assumptions on the revenue side (economic projections) are growth and inflation. A real growth factor of 1.0% is being used for the remaining years of the program. This is consistent with other external projections of real growth. The Association of Bay Area Governments (ABAG), the Metropolitan Transportation Commission (MTC), and the San Francisco County Controllers Office provided external verification used to substantiate these assumptions.

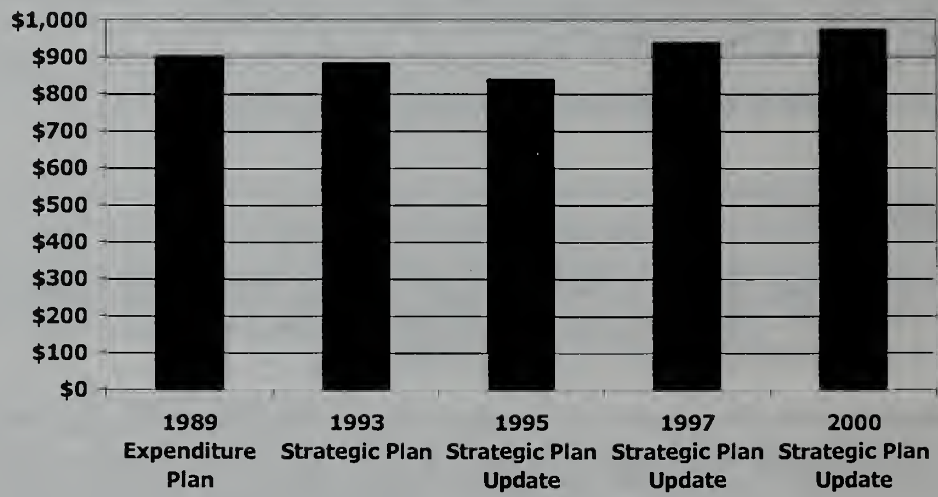
In the 10-year window for this Update, projecting inflation helps the Authority estimate its actual dollar outlay for any particular year. If the Federal Reserve Bank maintains pressure to control inflation by raising interest rates, it is likely that inflation will remain low for the next several years. Therefore, an inflation factor 3.0% is used for the remaining 10 years of the update.

Step 1: Update Sales Tax Revenue Forecast

The first step in the Strategic Plan Update process was to develop a financial strategy. In this step, the Authority reviewed the historical sales tax receipts in San Francisco for the last 10 years and identified and refined projections for expected revenue receipts in the future. These projections included increases due to both growth and inflation.

As summarized in Figure 1, the Authority anticipates collecting $974.5 million (1990$) in sales tax revenues over the twenty-year Proposition B program. In 1997, the anticipated 20-year collected revenues were $937.8 million (1990$). This trend reflects projected future growth in San Francisco's economy.

Figure 1
TWENTY-YEAR REVENUE FORECAST COMPARISON ($1990 M)



Step 2: Review State and Federal Funding Projections

The Proposition B program leverages state and federal funds to maximize outside funds available to San Francisco. Therefore, in addition to the new Proposition B revenue forecasts, state and federal funding projections were also revised to complete the revenue forecast picture.

Anticipated federal funds made available through TEA-21 (the six-year federal transportation bill known as the Transportation Equity Act for the 21st Century) are included in the revenue projections for San Francisco transportation projects. These include federal formula funds as well as discretionary FTA Section 5309 Congressional Earmarks, Surface Transportation Program (STP), and Congestion Mitigation & Air Quality (CMAQ) funding plus other TEA-21 enhancement programs.

State funding is provided through the State Transportation Improvement Program (STIP). In 1998, the first STIP following the new SB 45 rules and regulations was adopted. At that time, about $50 million was programmed for San Francisco projects. Shortly thereafter, TEA-21 was passed and provided more statewide funding than originally anticipated. As a result, in 1999, the STIP was augmented giving an additional $20 million in "regional improvement" funds to San Francisco. In January 2000, the Transportation Authority recommended a program of projects for the $20 million that were incorporated in the STIP amendment adopted by the California Transportation Commission (CTC) in March 2000.

Combined, the 1998 STIP and the STIP amendment have programmed approximately $70 million in State funds for San Francisco projects. Of this amount, about $35 million is programmed for Proposition B projects. This includes about $25 million for vehicle purchases for the Third Street Light Rail Project, $4 million for the MUNI Operations and Maintenance Facility at Islais Creek, and $5.5 million for MUNI trolley bus purchases.

The next opportunity for new state funds is anticipated to be the 2002 STIP. Although difficult to estimate, it is reasonable to assume that San Francisco Proposition B projects will receive at least the same level of funding ($35 million) as the 1998 STIP. In addition to new STIP funding, Governor Davis' proposed Traffic Congestion Relief Plan released in May 2000, includes $140 million for Phase II of the Third Street LRT Project (the new Central Subway) and $15 million for the Doyle Drive reconstruction project.

Step 3: Update and Refine Project Scopes, Schedules, and Cost/Funding Estimates

The third step in the Strategic Plan Update process was to review the status of expenditure plan projects. In this step, the Authority has worked with each City Department to update scopes of work, schedule, cost, and cash flow data for all active projects (including operations and maintenance funding). Information obtained for each project was examined to ensure that scope, schedule, key assumptions, and estimates are appropriate in relation to the goals of the Proposition B program.

Each project's scope of work, schedule and cost were summarized on a cost/funding matrix using escalated dollars with key assumptions identified. Federal and State revenue forecasts, provided by MTC and Caltrans, were also updated, and used in the cost/funding matrices. In consultation with City Departments, projects that are unlikely to be accomplished in the program's 20-year time frame were identified.

The following is a brief description of key projects and programs within each sponsoring City Department that will be accomplished within the 10-year period of this Strategic Plan Update.

Department of Public Works (DPW)

The Department of Public Works continues to move forward with various capital improvement projects and programs including continuation of the comprehensive street-resurfacing program. Priority 1 resurfacing activities are scheduled for completion by FY 2006/07. Sidewalk repair and replacement of street maintenance equipment will continue at current levels through FY 2002/03. Work will be completed on Phase I and II of the Bernal Heights street system upgrading. Downtown pedestrian projects are programmed through FY 2004/05.

Department of Parking and Traffic (DPT)

The Department of Parking and Traffic will complete Priority 1 Signal Upgrading work by FY 2005/06, through continued Authority programming of approximately $5M each year. New Traffic Signal construction will continue with over $5 million to be allocated through FY 2005/06. In accordance with an agreement between DPT and DPW, the remaining $1.3 million in the Bicycle, Pedestrian, and Disabled Access subcategory is programmed for bicycle improvements.

Planning Department (DCP)

The Planning Department will continue to perform program development and monitoring activities for the Transportation Brokerage and the Transportation Management Association programs through FY 2004/05, when the projected funding cap for these subcategories will be reached. The Planning Department's activities in the Transit Preferential Streets subcategory continue through FY 2004/05.

Municipal Transportation Agency (MTA)/MUNI

The three most important projects for the MTA over the next 10 years are replacement of the LRV, trolley coach and motor coach fleets; the facilities rehabilitation program; and construction of the Third Street LRT Project. These projects are summarized below.

Fleet Replacement Program

MUNI's light rail vehicle fleet replacement is nearing completion. This program replaces MUNI's 136-vehicle LRV fleet. The remaining 59 vehicles are currently on order to complete the procurement. MUNI has also exercised its option to procure an additional 15 LRVs required for the Third Street Light Rail Project.

The Authority and MUNI staff have refined the Trolley Bus and Motor Coach replacement projects to better understand and evaluate the program, including preparation of detailed cash flow projections. MUNI's assumptions for federal and state matching funds for this program appear to be realistic. However, TEA-21 annual appropriations need to be closely monitored to validate or adjust assumptions about future federal revenues, with particular focus on when these funds may become available.

Facilities Rehabilitation/Expansion Program

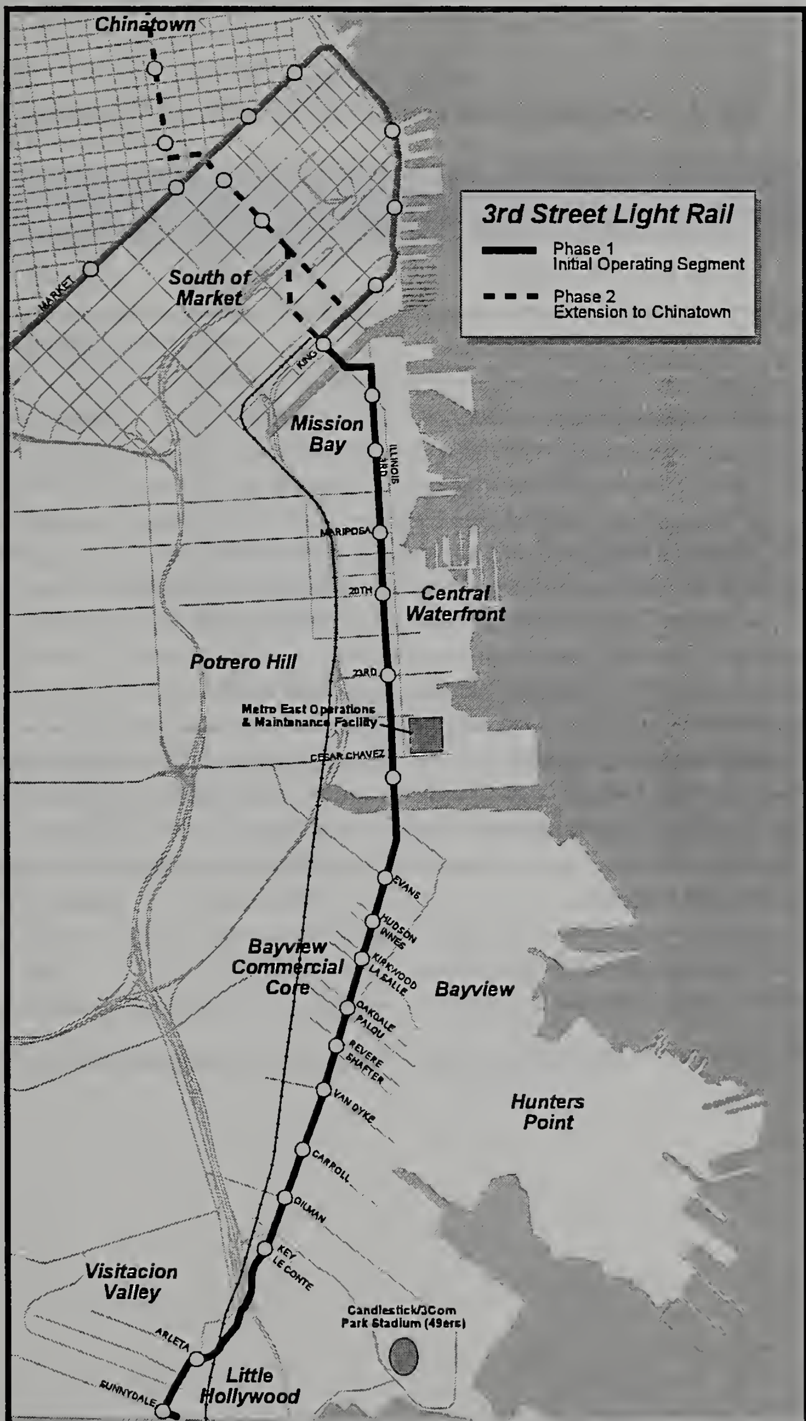
MUNI's facilities rehabilitation program has greater demand than the anticipated available Proposition B revenues. MUNI and Authority staff have agreed to use available revenues for MUNI's highest priority projects, those included in the Facilities Preservation Program. Implementation of replacement facilities other than Islais Creek has been deferred until new funding sources are identified.

Third Street Light Rail Project, Phase I – Initial Operating System & Metro East LRV Facility

Phase I of the Third Street LRT Project consists of a light rail transit extension, 19 stations, the Metro East Maintenance and Operations Facility, urban design elements, acquisition of right-of-way properties and the purchase of 15 additional light rail vehicles. The Project consists of a 5.4-mile extension of the MUNI Metro from 4th Street and King Street to a southern terminus adjacent to the Caltrain Bayshore Station. Phase II of the Light Rail extension will cross the 4th

Street Bridge, Islais Creek and Highway 101. A map showing the location of this project is shown in Figure 2.

Figure 2
Third Street Light Rail Map



Current cost estimates (in escalated dollars) for the Third Street LRT – Phase 1 Project (not including additional Mission Bay service in 2015) are $324.5 million for the rail project, $126.6 million for the rail maintenance facility and $42.9 million for the 15 LRVs. In order to meet the funding demand for the Third Street Light Rail Project funds are derived from elements of several TEP projects, including Transit Corridor Planning and Capital Construction (TA #15), Mission Bay MUNI Metro Extension (TA# 3), Metro East LRV Facility (TA# 8), and the Third Street Median Island (TA# 39). Recommended funding for the Third Street LRT Project is outlined in Figure 3.

Figure 3
Third Street/Metro East Facility Projects (Prop. B Funding in $ Millions)

Number	Project	Third St. Light Rail	Metro East LRV Facility	Vehicles	Total
	Total Cost of Projects	$324.49	$126.62	$42.90	$494.01
TA#2.4	MUNI Metro Extension		$36.02		$36.02
TA#3	Mission Bay Metro Ext.	$4.02	$13.62		$17.64
TA#8	Metro East LRV Facility		$25.87		$25.87
TA#14	Major Corridor Studies	$12.73			$12.73
TA#15	Capital Construction Fund	$259.47		$17.90	$277.37
TA#39	Third Street Median Island	$10.17			$10.17
Total Prop. B Funding Available		$286.39	$75.51	$17.90	$379.80
Anticipated Federal/State Funding		$35.07	$51.11	$25.00	$111.18
Total Funding Available		**$321.46**	**$126.62**	**$42.9**	**$490.98**
Other Funding Sources to be Identified		$3.03	$0	$0	$3.03

Sources: Costs are from MUNI staff - Proposition B data updated by the Authority in June 2000.

Step 4: Determine Program Allocation and Cash Flow Requirements

In addition to analysis of all future projects, the Authority's financial advisor prepared detailed cash flow projections for the following five major projects:

- MUNI Light Rail Vehicle Replacement Program
- MUNI Third Street Light Rail Project
- MUNI Motor Coach Replacement Program
- MUNI Trolley Coach Replacement Program
- DPW Street Resurfacing

Cash flow demands for all other TEP projects and programs in this Strategic Plan update are based on historical patterns of previous drawdowns for similar projects.

Step 5: Assess Financial Alternatives

The final step in the Strategic Plan Update was to compare annual project funding demand to funding availability. Results of this comparison verify that a cash flow shortage projected in the 1997 Strategic Plan Update will occur. Based on the current projections, cash demand in several years exceeds the available revenue, creating the need for financing. It is anticipated that, to fund the program as currently projected, the Authority will need to borrow. Under current market conditions, the Authority has the capacity to issue up to $359 million in bonds for a period of 9 years. The Authority's Financial Advisor has projected the financing cost to the program to be $98 million.

Further financial analysis included a brief analysis of methods to reduce the cost of financing.

If, rather than obtaining financing for the program, the Authority were to continue with a pay-as-you-go strategy, then the Third Street LRT Project, and portions of the MUNI vehicle replacement program and Facilities Program would be delayed. Also, allocations for other programs such as Street Resurfacing and Signal Upgrading would likely need to be delayed.

IV. RECOMMENDATIONS

Program Recommendations

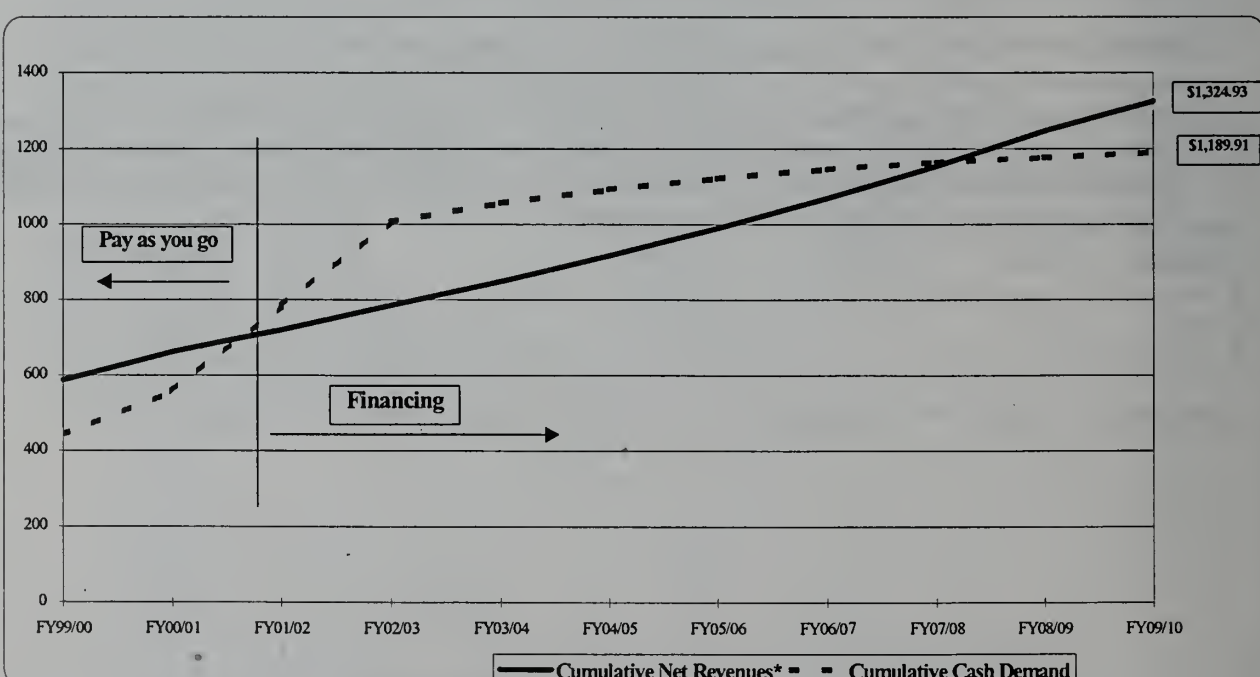
Figure 5 presents Recommended Funding Allocations, detailing the recommended funding commitments from FY 2000/01 through FY 2009/10 in escalated dollars. This figure is found at the end of this document on pages 13-14.

Financing Strategy Recommendations

Need for Financing

Since its inception, the Transportation Authority has been able to use a pay-as-you-go strategy to fund implementation of the Proposition B program. However, in order to complete the proposed projects over the next several years, the Authority will need to obtain financing by bonding against future sales tax revenue. The main reason is that the MUNI Third Street LRT and new vehicle acquisition projects place significant demands on cash flows over a several year period. Figure 4 summarizes the projected cumulative tax revenue versus the expected cumulative cash demand for the Proposition B program.

Figure 4
CUMULATIVE NET REVENUE AND CASH DEMAND (ESC $M)



	FY99/00	FY00/01	FY01/02	FY02/03	FY03/04	FY04/05	FY05/06	FY06/07	FY07/08	FY08/09	FY09/10
Cumulative Net Revenues*	587.98	662.78	721.13	786.44	850.08	917.95	990.83	1069.48	1154.77	1247.60	1324.93
Cumulative Cash Demand	441.75	558.42	783.67	1008.32	1057.17	1093.04	1122.77	1146.98	1164.25	1176.69	1189.91
Net Cash Flow	146.23	104.35	(62.54)	(221.88)	(207.09)	(175.08)	(131.94)	(77.50)	(9.48)	70.91	135.03

* Less Financing Costs

As shown in Figure 4, using projected program cash drawdowns provided by the City Departments and sales tax revenue assumptions, the program's cumulative cash demand exceeds the cumulative revenue in the seven year period from FY 2001/02 through FY 2007/08. In order to meet this cash demand, the Authority will need to obtain financing beginning in FY 2001/02.

The Strategic Plan Update recommends that the Transportation Authority carefully consider the timing, amount, and method of financing. These factors are critical to the success of a financing program.

The most critical aspect of financing is determining how much to finance. The more financing required, the higher the cost to the Transportation Authority. By keeping borrowing costs as low as possible, the Authority will have more money to spend on projects. This cost must be balanced against the benefits of implementing projects more quickly, namely: reducing impacts of construction cost inflation, obtaining more efficient construction programs, and - most importantly for the Authority - delivering needed transportation improvements to the city more quickly.

The key question the Authority must answer is how likely are the major projects to draw-down Authority cash at the rate anticipated in this Strategic Plan Update. If the drawdowns are spread more evenly over time, financing costs can be reduced. The Authority plans to work closely with the departments (especially MUNI because it has the largest projects), to refine anticipated cash drawdown schedules and obtain the best possible estimate of required financing needs.

In addition to the amount of financing, there are two important factors to consider in terms of timing. First, when will funds be needed to meet public commitments? Second, when would it be most advantageous to enter the financial market to obtain funding?

Finally, there are several possible structures for financing the Authority's projects, including issuance of fixed-rate, long-term debt; issuance of short-term, variable-rate debt; or a combination of both. The decision as to which structure to use will depend upon market conditions, preferences of the Authority, and the demonstrated ability of project sponsoring departments, especially MUNI, to utilize Authority funding on time.

Regardless of which financing strategy the Authority chooses for years of heavy capital expenditure (FY 2001/02 – FY2006/07), the Authority must constantly evaluate the potential for entering the market to take advantage of any favorable market conditions that appear.

Policy Recommendations

In order to adopt the Authority's 10-year funding program (outlined in Figure 5). The following three policy recommendations should be implemented:

Policy Recommendation #1: Continue strong oversight role on Third Street LRT Project

The Authority should continue a strong oversight role on MUNI's Third Street LRT Project to ensure that the project schedule, budget, and objectives are met. This level of oversight is consistent with that provided by the Authority to successfully oversee preparation of the Preliminary Engineering package.

This Strategic Plan Update calls for approximately $380 million in Proposition B sales tax revenues to be used for the Third Street LRT Project. Construction of the Third Street LRT Project, Phase 1, Initial Operating Segment (IOS), including vehicles and the Metro East maintenance facility, will also require approximately $114 million from a variety of other funding sources for implementation. This amount is currently projected to come from non-sales tax sources, including federal and state funds that could be

used for other San Francisco projects. No additional funding will be available from the Proposition B sales tax program should the Third Street LRT Project incur any additional costs. Therefore, it is critical that MUNI exercise diligent project management to avoid potential cost increases on the project.

To date, the Authority has invested over $49 million worth of Proposition B funds in the Third Street LRT Project. The project is now at a critical transition point where it will be moving from the planning phase to actual design and construction. As described above, in order to meet MUNI's current schedule for the Third Street LRT Project, the Authority will need to borrow money.

Policy Recommendation #2: Reconfirm Policy on Allocation of Financing Costs

With the adoption of the 1997 Strategic Plan Update, the Authority adopted a policy that allows financing costs to be distributed to the entire program rather than to a specific project. Now that the Authority has determined that financing will be necessary to meet Transportation Expenditure Plan demands it should reconfirm this policy. This will ensure that the program's larger projects, including the Third Street LRT project, will not be burdened with the cost of financing.

Policy Recommendation #3: Encourage Project Sponsors to De-Obligate Funds when no Longer Needed

As the Authority moves into the final 10 years of the Proposition B program, it will become more important to closely monitor project costs and expenditures to ensure a balance at the end of the 20-year period. To work toward this objective and meet the changing needs of projects and programs, the Authority should require project sponsors to de-obligate remaining funds from projects whose scope is completed. This policy acknowledges that individual project needs have changed since 1989 and that some projects no longer require the level of Measure B funding originally anticipated. De-obligated funds would then become available for other eligible projects or programs within the original constraints of the TEP.

Figure 5

SFCTA PROPOSITION "B" RECOMMENDED FUNDING COMMITMENTS (Escalated $ in Millions)

PROPOSITION B	FY99/00 Subtotal	Projected Deobligation	Through FY99/00 + De-obligations	FY00/01	FY01/02	FY02/03	FY03/04	FY04/05	FY05/06	FY06/07	FY07/08	FY08/09	FY09/10	10 year Strategic Plan Commitment	20 Year Program
REVENUE PROJECTIONS															
Gross Sales Tax Receipts	532.18		532.18	70.24	73.05	75.97	79.01	82.17	85.45	88.87	92.43	96.12	74.98	818.28	1,350.46
Less St Bd of Eq Fee (1.25%)	7.71		7.71	0.80	0.91	0.95	0.99	1.03	1.07	1.11	1.16	1.20	0.94	10.15	17.87
Less Staff Salaries and Benefits (1%)	4.50		4.50	0.70	0.73	0.76	0.79	0.82	0.85	0.89	0.92	0.96	0.75	8.18	12.69
Less Authority Operating Expenses (1%)	4.87		4.87	0.70	0.73	0.76	0.79	0.82	0.85	0.89	0.92	0.96	0.75	8.18	13.05
Less Project Management Oversight (.75%)	2.95		2.95	0.53	0.55	0.57	0.59	0.62	0.64	0.67	0.69	0.72	0.56	6.14	9.08
Plus Interest Income (6%)	75.83		75.83	7.30	9.37	9.48	3.03	2.23	1.98	2.24	3.07	4.50	6.57	49.77	125.60
Less Financing Cost	-		-	-	21.14	17.10	15.23	13.25	11.14	8.91	6.52	3.95	1.21	98.44	98.44
Equals Net Sales Tax Receipts	**587.98**		**587.98**	**74.80**	**58.35**	**65.31**	**63.65**	**67.87**	**72.88**	**78.65**	**85.29**	**92.83**	**77.33**	**736.95**	**1,324.93**
RECOMMENDED FUNDING COMMITMENTS FOR PROJECTS/PROGRAMS															
TRANSIT															
Service Enhancements and Extensions															
1 Muni Metro Turnback	16.35	(5.59)	10.76	1.65	4.00	4.00	3.07	-	-	-	-	-	-	12.72	23.48
2 Muni Metro Extension	23.59	-	23.59	4.00	37.71	-	-	-	-	-	-	-	-	41.71	65.30
3 Mission Bay Metro Ext.	1.23		1.23	-	17.64	-	-	-	-	-	-	-	-	17.64	18.87
4 F-Line Streetcar	41.34	(0.50)	40.84	1.46	1.10	1.17	1.24	1.32	0.90	-	-	-	-	7.20	48.04
5 Metro Subway Signal System (ATCS)	5.85		5.85	-	-	-	-	-	-	-	-	-	-	-	5.85
6 M,A, - Boarding Platform Church & 18th	0.12		0.12											-	0.12
7 Presidio Facilities Redevel.	-		-	-	-	-	-	-	-	-	-	-	-	-	-
8 Metro East LRV Facility	2.00		2.00	-	23.87	-	-	-	-	-	-	-	-	23.87	25.87
9 Geneva Modifications	0.10		0.10	-	-	-	-	-	-	-	-	-	-	-	0.10
10 Mission Bay Trolley Rerouting/Ext.	-		-	-	-	-	-	-	-	-	-	-	-	-	-
11 Trolley Coach Electrification	-		-	-	-	-	-	-	-	-	-	-	-	-	-
12 Ext. to Muni Rte. 14 to Daly City	-		-	-	-	-	-	-	-	-	-	-	-	-	-
13 Ferry Terminal Expansion	0.10		0.10	-	-	-	-	-	-	-	-	-	-	-	0.10
Service Enhancements and Extensions Totals:	90.68	(6.09)	84.59	7.11	84.33	5.17	4.31	1.32	0.90	-	-	-	-	103.15	187.73
Major Transit Corridors															
14 Major Corridor Study	10.21	(0.03)	10.18	-	2.55	-	-	-	-	-	-	-	-	2.55	12.73
15 Capital Construction Fund	37.04		37.04	37.24	43.72	159.37	-	-	-	-	-	-	-	240.33	277.37
Major Transit Corridors Totals:	47.25	(0.03)	47.22	37.24	46.27	159.37	-	-	-	-	-	-	-	242.88	290.10
Rehabilitation and Replacement															
16 Vehicles	122.04	-	122.04	9.77	4.63	1.04	0.62	0.63	0.64	0.66	0.68	0.70	0.73	20.11	142.15
17 Guideway	3.54	-	3.54	-	-	-	-	-	-	-	-	-	-	-	3.54
18 Facilities	35.94	(0.89)	35.05	16.03	22.10	6.53	1.14	1.16	-	-	-	-	-	46.96	82.02
19 Graffitti Prevention	0.05	(0.01)	0.04	2.56	-	-	-	-	-	-	-	-	-	2.56	2.60
53 Financial Capacity Study	0.24	(0.24)	-	-	-	-	-	-	-	-	-	-	-	-	-
54 Capital Staffing Position	0.70		0.70	0.15	0.34	0.35	0.36	0.37	0.38	0.39	0.41	0.42	0.27	3.44	4.13
Rehabilitation and Replacement Totals:	162.51	(1.14)	161.37	28.51	27.07	7.92	2.12	2.16	1.03	1.06	1.09	1.12	0.99	73.07	234.43
TRANSIT TOTAL:	300.44	(7.26)	293.17	72.86	157.66	172.46	6.43	3.48	1.93	1.06	1.09	1.12	0.99	419.10	712.27
STREETS AND TRAFFIC SAFETY															
Street Resurfacing / Reconstruction															
20 Street Resurfacing	93.70	-	93.70	15.60	17.10	10.87	11.20	9.92	4.30	4.43	-	-	-	73.42	167.12
21 Seismic Reinforcement	2.26		2.26	0.13	-	-	-	-	-	-	-	-	-	0.13	2.39
22 Railroad Track Removal/Repair	4.08		4.08	-	-	-	-	-	-	-	-	-	-	-	4.08
23 Sidewalk Repair - Public	5.86		5.86	0.60	0.54	0.35	-	-	-	-	-	-	-	1.49	7.35
24 Street Repair & Cleaning Equip.	8.97		8.97	1.24	1.02	0.96	1.31	1.05	1.12	-	-	-	-	6.70	15.67
Street Resurfacing / Reconstruction Totals:	114.87	-	114.87	17.57	18.66	12.18	12.51	10.98	5.42	4.43	-	-	-	81.75	196.62

Figure 5

SFCTA PROPOSITION "B" RECOMMENDED FUNDING COMMITMENTS (Escalated $ in Millions)

PROPOSITION B	FY99/00 Subtotal	Projected Deobligation	Through FY99/00 + De-obligations	FY00/01	FY01/02	FY02/03	FY03/04	FY04/05	FY05/06	FY06/07	FY07/08	FY08/09	FY09/10	10 year Strategic Plan Commitment	20 Year Program
Traffic Signals and Street Signs															
25 Signal Upgrading	36.91		36.91	5.13	5.47	5.66	5.87	6.08	4.87	-	-	-	-	33.07	69.98
26 Street Name Signs	1.00		1.00	-	-	-	-	-	-	-	-	-	-	-	1.00
27 Raised Reflective Lane Markers	0.10		0.10	0.10	0.11	0.11	0.11	0.12	0.12	-	-	-	-	0.67	0.77
28 New Traffic Signals	4.68		4.68	0.80	0.85	0.87	0.90	0.93	0.96	-	-	-	-	5.31	9.98
29 Traffic Control Systems	0.71		0.71	0.05	0.05	0.05	0.06	0.06	0.06	-	-	-	-	0.33	1.05
30 Traffic Engineering Equip.	0.99	(0.01)	0.98	0.18	0.14	0.10	0.10	0.21	0.16	-	-	-	-	0.89	1.87
31 Ceasar Chevaz Street (Army St)	0.10		0.10	-	-	-	-	-	-	-	-	-	-	-	0.10
32 Potrero Avenue	-		-	-	-	-	-	-	-	-	-	-	-	-	-
Traffic Signals and Street Signs Totals:	44.49	(0.01)	44.48	6.26	6.62	6.81	7.03	7.39	6.16	-	-	-	-	40.27	84.75
Major Capital Projects															
33 Embarcadero Roadway	33.12	(0.47)	32.65	0.59	(0.15)	(4.11)	0.74	0.79	0.85	0.91	0.84	0.90	0.93	2.28	34.93
34 19th & Holloway Safety Imp. (A&B)	0.45		0.45	-	-	-	-	-	-	-	-	-	-	-	0.45
35 Candlestick Park Short-Range Traffic Impr.	1.00	(0.70)	0.30	-	-	-	-	-	-	-	-	-	-	-	0.30
36 Bernal Heights St. System Upgrading	5.29		5.29	0.21	0.53	1.68	-	-	-	-	-	-	-	2.42	7.70
37 Hunters Point Industrial Connector	-		-	-	-	-	-	-	-	-	-	-	-	-	-
38 Undergrnd Crossover Drive thr. Golden Gate Park	-		-	-	-	-	-	-	-	-	-	-	-	-	-
39 Third Street Median Island - Third St. LRT	-	-	-	-	10.17	-	-	-	-	-	-	-	-	10.17	10.17
Major Capital Projects Totals:	39.85	(1.17)	38.68	0.80	10.55	(2.43)	0.74	0.79	0.85	0.91	0.84	0.90	0.93	14.87	53.55
Street Trees															
40 Planting & Maint. of Existing Trees	3.45	(0.46)	2.99	0.50	0.54	0.55	0.57	0.59	0.60	0.62	0.64	0.66	0.68	5.95	8.94
41 Planting & Maint. of Additional Trees	7.43	(0.21)	7.22	1.00	-	-	-	-	-	-	-	-	-	1.00	8.22
Street Trees Totals:	10.88	(0.67)	10.21	1.50	0.54	0.55	0.57	0.59	0.60	0.62	0.64	0.66	0.68	6.95	17.16
STREETS AND TRAFFIC SAFETY TOTAL:	210.09	(1.84)	208.25	26.13	36.37	17.11	20.85	19.75	13.03	5.96	1.48	1.56	1.60	143.84	352.08
PARATRANSIT															
Paratransit															
42 Paratransit	41.49	(4.41)	37.07	7.74	5.98	6.07	5.69	6.34	7.03	7.76	8.54	7.67	6.43	69.26	106.33 -
PARATRANSIT TOTAL:	41.49	(4.41)	37.07	7.74	5.98	6.07	5.69	6.34	7.03	7.76	8.54	7.67	6.43	69.26	106.33
TRANSPORTATION SYSTEMS MANAGEMENT															
Ridesharing and Transit Promotion															
43 Transit Preferential Streets	2.83	(0.29)	2.54	0.51	0.52	0.26	0.14	0.16	0.12	0.12	0.12	-	-	1.95	4.49
44 Sterling St. HOV Lanes	0.01		0.01	-	-	-	-	-	-	-	-	-	-	-	0.01
45 Transportation Brokerage Program	2.18	(0.66)	1.52	0.37	0.39	0.41	0.44	0.47	-	-	-	-	-	2.08	3.60
46 Transportation Management Assoc. Program	1.69	(0.38)	1.31	0.24	0.34	0.36	0.38	0.41	0.43	-	-	-	-	2.17	3.48
Ridesharing and Transit Promotion Totals:	6.72	(1.33)	5.39	1.12	1.26	1.04	0.97	1.03	0.55	0.12	0.12	-	-	6.20	11.58
Bicycle and Pedestrian															
47 Bicycle, Ped., Elderly, & Disabled Access.	3.46	(0.00)	3.46	0.14	0.14	0.14	0.04	0.01	0.01	-	-	-	-	0.47	3.93
48 Downtown Ped. Project	2.57	(0.05)	2.52	0.16	0.58	0.15	0.11	0.12	-	-	-	-	-	1.12	3.63
49 Pedestrian Connections & Transit Access	0.08		0.08	-	-	-	-	-	-	-	-	-	-	-	0.08
Bicycle and Pedestrian Totals:	6.11	(0.06)	6.05	0.29	0.72	0.29	0.15	0.13	0.01	-	-	-	-	1.59	7.64
TRANSPORTATION SYSTEMS MANAGEMENT TOTAL:	12.83	(1.39)	11.44	1.41	1.97	1.33	1.12	1.16	0.56	0.12	0.12	-	-	7.79	19.23
TOTAL PROJECT/PROGRAMS	564.84	(14.91)	549.93	108.14	201.99	196.98	34.09	30.72	22.55	14.90	11.23	10.36	9.03	639.98	1189.91